

**REPORT OF THE AUDIT OF THE
HENRY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HENRY COUNTY FISCAL COURT

June 30, 2005

The Auditor of Public Accounts has completed the audit of the Henry County Fiscal Court for fiscal year ended June 30, 2005. We have issued an unqualified opinion on the governmental activities, each major fund, and aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$5,866,194 on June 30, 2005. The fiscal court had unrestricted net assets of \$3,772,618 in its governmental activities on June 30, 2005. The fiscal court had total debt principal on June 30, 2005 of \$297,732 with \$13,768 due within the next year.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

<u>CONTENTS</u>	PAGE
INDEPENDENT AUDITOR’S REPORT	1
HENRY COUNTY OFFICIALS	3
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	7
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	10
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	15
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	18
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	23
NOTES TO FINANCIAL STATEMENTS.....	25
BUDGETARY COMPARISON SCHEDULES	35
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	38
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	40
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	44
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	49
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable John L. Brent, Henry County Judge/Executive
Members of the Henry County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Henry County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Henry County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Henry County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Henry County, Kentucky, as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable John L. Brent, Henry County Judge/Executive
Members of the Henry County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Henry County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated January 19, 2006 on our consideration of Henry County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed –
January 19, 2006

HENRY COUNTY OFFICIALS

For The Year Ended June 30, 2005

Fiscal Court Members:

John Logan Brent	County Judge/Executive
John Allgeier	Magistrate
Jerry Beasley	Magistrate
David Brown	Magistrate
Michael Fisher	Magistrate
Wayne Gunnell	Magistrate
Cecil McCarty	Magistrate

Other Elected Officials:

Virginia Harrod	County Attorney
Neil Stivers	Jailer
Juanita Lashley	County Clerk
Mary Lou Roberts	Circuit Court Clerk
G.R. "Bobby" Downey	Sheriff
Jason Scriber	Property Valuation Administrator
James Pollard	Coroner

Appointed Personnel:

Mary A. Scriber	County Treasurer
Peggy V. Bryant	Finance Officer

THIS PAGE LEFT BLANK INTENTIONALLY

HENRY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

HENRY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 3,772,618
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land	362,166
Construction In Progress	79,270
Buildings	993,383
Equipment	274,664
Vehicles	391,918
Infrastructure Assets - Net of Depreciation	289,907
Total Noncurrent Assets	<u>2,391,308</u>
Total Assets	<u>6,163,926</u>
LIABILITIES	
Current Liabilities:	
Financing Obligation	13,768
Noncurrent Liabilities:	
Financing Obligation	283,964
Total Liabilities	<u>297,732</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	\$ 2,093,576
Unrestricted	3,772,618
Total Net Assets	<u><u>\$ 5,866,194</u></u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

HENRY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

HENRY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues Received</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General Government	\$ 1,699,552	\$ 343,682	\$ 225,438	\$
Protection to Persons and Property	841,694	264,336	128,703	58,905
General Health and Sanitation	116,241	900	26,205	
Social Services	17,740		22,152	
Recreation and Culture	74,973	875		
Roads	606,560		1,014,468	
Interest on Long Term Debt	10,323			
Capital Projects	1,000			
Total Governmental Activities	3,368,083	609,793	1,416,966	58,905

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Intergovernmental Revenues

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

HENRY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Net (Expenses) Revenues
and Changes in Net Assets

Governmental
Activities

\$ (1,130,432)
 (389,750)
 (89,136)
 4,412
 (74,098)
 407,908
 (10,323)
 (1,000)

 (1,282,419)

640,039
 73,024
 92,937
 279,212
 99,222
 11,759
 770,639
 67,930

 2,034,762

 752,343

 5,113,851

 \$ 5,866,194

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

HENRY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

HENRY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and Cash Equivalents	\$ 1,439,602	\$ 1,947,760	\$ 5,962	\$ 379,294	\$ 3,772,618
Total Assets	<u>\$ 1,439,602</u>	<u>\$ 1,947,760</u>	<u>\$ 5,962</u>	<u>\$ 379,294</u>	<u>\$ 3,772,618</u>
FUND BALANCES					
Unreserved:					
General Fund	\$ 1,439,602	\$	\$	\$	\$ 1,439,602
Special Revenue Funds	<u></u>	<u>1,947,760</u>	<u>5,962</u>	<u>379,294</u>	<u>2,333,016</u>
Total Fund Balances	<u>\$ 1,439,602</u>	<u>\$ 1,947,760</u>	<u>\$ 5,962</u>	<u>\$ 379,294</u>	<u>\$ 3,772,618</u>

**Reconciliation of the Balance Sheet-Governmental Funds
to the Statement of Net Assets:**

Total Fund Balances	\$ 3,772,618
Amounts Reported For Governmental Activities in the Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	3,725,428
Accumulated Depreciation	(1,334,120)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	<u>(297,732)</u>
Net Assets of Governmental Activities	<u>\$ 5,866,194</u>

THIS PAGE LEFT BLANK INTENTIONALLY

HENRY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

HENRY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	General Fund	Road Fund	Jail Fund
REVENUES			
Taxes	\$ 994,146	\$	\$
Excess Fees	99,222		
Licenses and Permits	324,218		
Intergovernmental	279,723	1,014,468	98,046
Charges for Services	259,809		
Miscellaneous	748,941	834	14
Interest	22,996	36,059	975
Total Revenues	<u>2,729,055</u>	<u>1,051,361</u>	<u>99,035</u>
EXPENDITURES			
General Government	1,221,432		
Protection to Persons and Property	312,959		479,837
General Health and Sanitation	84,301		
Social Services			
Recreation and Culture	43,738		
Roads		614,643	
Debt Service	24,751		
Capital Projects			
Administration	<u>451,776</u>	<u>95,117</u>	<u>15,893</u>
Total Expenditures	<u>2,138,957</u>	<u>709,760</u>	<u>495,730</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>590,098</u>	<u>341,601</u>	<u>(396,695)</u>
Other Financing Sources (Uses)			
Transfers from Other Funds	2,500		400,000
Transfers to Other Funds	<u>(410,032)</u>		
Total Other Financing Sources (Uses)	<u>(407,532)</u>		<u>400,000</u>
Net Change in Fund Balances	182,566	341,601	3,305
Fund Balances - Beginning	<u>1,257,036</u>	<u>1,606,159</u>	<u>2,657</u>
Fund Balances - Ending	<u>\$ 1,439,602</u>	<u>\$ 1,947,760</u>	<u>\$ 5,962</u>

The accompanying notes are an integral part of the financial statements.

HENRY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Non-Major Governmental Funds	Total Governmental Funds
\$ 91,066	\$ 1,085,212
	99,222
	324,218
78,645	1,470,882
	259,809
63,363	813,152
7,901	67,931
<u>240,975</u>	<u>4,120,426</u>
12,746	1,234,178
144,127	936,923
31,940	116,241
17,740	17,740
25,176	68,914
	614,643
1,245	25,996
1,000	1,000
	562,786
<u>233,974</u>	<u>3,578,421</u>
7,001	542,005
10,032	412,532
(2,500)	(412,532)
<u>7,532</u>	
14,533	542,005
364,761	3,230,613
<u>\$ 379,294</u>	<u>\$ 3,772,618</u>

The accompanying notes are an integral part of the financial statements.

THIS PAGE LEFT BLANK INTENTIONALLY

**HENRY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

HENRY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 542,005
--	------------

Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets Is Allocated Over their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	352,397
Depreciation Expense	(157,732)

Financing Obligation Payments Are Expensed in the Governmental Funds as a Use of Current Financial Resources. These transactions, however, have no effect on net assets.

Financing Obligations	15,673
-----------------------	--------

Change in Net Assets of Governmental Activities	\$ 752,343
---	------------

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	25
NOTE 2.	DEPOSITS	29
NOTE 3.	CAPITAL ASSETS.....	30
NOTE 4.	SHORT-TERM DEBT.....	31
NOTE 5.	LONG-TERM DEBT	31
NOTE 6.	EMPLOYEE RETIREMENT SYSTEM	32
NOTE 7.	INSURANCE	32

HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Henry County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service.

C. Henry County Elected Officials Not Part Of Henry County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Henry County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Henry County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities normally are supported by taxes and intergovernmental revenues.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Governmental Funds

The government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

**HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Federal Grant Fund, Solid Waste Grant Fund, Emergency 911-EMS Fund, and Fair Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Federal Grant Fund, Solid Waste Grant Fund, Emergency 911-EMS Fund, and Fair Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Infrastructure	\$ 20,000	10-25

G. Long-term Obligations

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, and encumbrances.

**HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 362,166	\$	\$	\$ 362,166
Construction In Progress		79,270		79,270
Total Capital Assets Not Being Depreciated	362,166	79,270		441,436
Capital Assets, Being Depreciated:				
Buildings	1,287,865			1,287,865
Equipment	497,537	24,100		521,637
Vehicles	1,039,164	92,507		1,131,671
Infrastructure	186,299	156,520		342,819
Total Capital Assets Being Depreciated	3,010,865	273,127		3,283,992
Less Accumulated Depreciation For:				
Buildings	(276,886)	(17,596)		(294,482)
Equipment	(226,752)	(20,221)		(246,973)
Vehicles	(654,120)	(85,633)		(739,753)
Infrastructure	(18,630)	(34,282)		(52,912)
Total Accumulated Depreciation	(1,176,388)	(157,732)		(1,334,120)
Total Capital Assets, Being Depreciated, Net	1,834,477	115,395		1,949,872
Governmental Activities Capital Assets, Net	<u>\$2,196,643</u>	<u>\$ 194,665</u>	<u>\$ 0</u>	<u>\$ 2,391,308</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 13,598
Protection to Persons and Property	60,655
Recreation and Culture	6,059
Roads, Including Depreciation of General Infrastructure Assets	<u>77,420</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 157,732</u>

HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005
(Continued)

Note 4. Short-term Debt

In July 2004, Henry County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$936,800, with principal being due in January 2005. While the County did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$2,877.

Note 5. Long-term Debt

A. Capital Lease

On October 29, 1999 Henry County Fiscal Court entered into a financial obligation agreement with the Kentucky Association of Counties Leasing Trust Program for the purchase of the Courthouse Annex county office building in the amount of \$375,000. The obligation was refinanced on May 7, 2001, with the terms being changed to a variable interest rate on the unpaid principal, and with monthly payments due the 20th of each month. The obligation is to be paid in full on May 20, 2020. The following table shows the scheduled interest (based upon an interest rate of 4%) and principal amounts during the next five years and thereafter:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2006	\$ 14,696	\$ 13,768
2007	13,985	14,475
2008	13,263	15,218
2009	12,506	15,972
2010	11,663	16,820
2011-2015	44,521	97,977
2016-2020	16,797	123,502
Totals	<u>\$ 127,431</u>	<u>\$ 297,732</u>

B. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Financing Obligation	<u>\$ 313,405</u>	<u>\$</u>	<u>\$ 15,673</u>	<u>\$ 297,732</u>	<u>\$ 13,768</u>

**HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2005
(Continued)**

Note 6. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan, public retirement system, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 7. Insurance

For the fiscal year ended June 30, 2005, Henry County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 899,000	\$ 899,000	\$ 994,146	\$ 95,146
Excess Fees	107,038	107,038	99,222	(7,816)
Licenses and Permits	281,000	281,000	324,218	43,218
Intergovernmental Revenue	168,435	168,435	279,723	111,288
Charges for Services	166,000	166,000	259,809	93,809
Miscellaneous	708,317	708,317	748,941	40,624
Interest	10,000	10,000	22,996	12,996
Total Revenues	<u>\$ 2,339,790</u>	<u>\$ 2,339,790</u>	<u>\$ 2,729,055</u>	<u>\$ 389,265</u>
EXPENDITURES				
General Government	\$ 1,207,578	\$ 1,225,332	\$ 1,221,432	\$ 3,900
Protection to Persons and Property	267,715	325,165	312,959	12,206
General Health and Sanitation	78,452	85,701	84,301	1,400
Recreation and Culture	44,198	46,481	43,738	2,743
Debt Service	25,220	25,220	24,751	469
Capital Projects	60,000	60,000		60,000
Administration	596,200	464,198	451,776	12,422
Total Expenditures	<u>\$ 2,279,363</u>	<u>\$ 2,232,097</u>	<u>\$ 2,138,957</u>	<u>\$ 93,140</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>\$ 60,427</u>	<u>\$ 107,693</u>	<u>\$ 590,098</u>	<u>\$ 482,405</u>
OTHER FINANCING SOURCES (USES)				
Proceeds - Other Financing Obligations	\$ 28,219	\$ 28,219	\$	\$ (28,219)
Transfers from Other Funds	169,180	169,180	2,500	(166,680)
Transfers to Other Funds	(401,009)	(401,009)	(410,032)	(9,023)
Total Other Financing Sources (Uses)	<u>\$ (203,610)</u>	<u>\$ (203,610)</u>	<u>\$ (407,532)</u>	<u>\$ (203,922)</u>
Net Changes in Fund Balance	\$ (143,183)	\$ (95,917)	\$ 182,566	\$ 278,483
Fund Balance - Beginning	<u>143,183</u>	<u>143,183</u>	<u>1,257,036</u>	<u>1,113,853</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 47,266</u>	<u>\$ 1,439,602</u>	<u>\$ 1,392,336</u>

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 830,169	\$ 830,169	\$ 1,014,468	\$ 184,299
Miscellaneous	1,000	1,000	834	(166)
Interest	11,000	11,000	36,059	25,059
Total Revenues	<u>\$ 842,169</u>	<u>\$ 842,169</u>	<u>\$ 1,051,361</u>	<u>\$ 209,192</u>
EXPENDITURES				
Roads	\$ 761,200	\$ 763,053	\$ 614,643	\$ 148,410
Administration	99,500	100,647	95,117	5,530
Total Expenditures	<u>\$ 860,700</u>	<u>\$ 863,700</u>	<u>\$ 709,760</u>	<u>\$ 153,940</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>\$ (18,531)</u>	<u>\$ (21,531)</u>	<u>\$ 341,601</u>	<u>\$ 363,132</u>
OTHER FINANCING SOURCES (USES)				
Proceeds - Other Financing Obligations	\$ 3,000	\$ 3,000	\$	\$ (3,000)
Transfers to Other Funds	(169,180)	(169,180)		169,180
Total Other Financing Sources (Uses)	<u>\$ (166,180)</u>	<u>\$ (166,180)</u>	<u>\$</u>	<u>\$ 166,180</u>
Net Changes in Fund Balance	\$ (184,711)	\$ (187,711)	\$ 341,601	\$ 529,312
Fund Balance - Beginning	<u>184,711</u>	<u>184,711</u>	<u>1,606,159</u>	<u>1,421,448</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (3,000)</u>	<u>\$ 1,947,760</u>	<u>\$ 1,950,760</u>

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 76,831	\$ 76,831	\$ 98,046	\$ 21,215
Charges for Services	500	500		(500)
Miscellaneous	1,500	1,500	14	(1,486)
Interest	500	500	975	475
Total Revenues	<u>\$ 79,331</u>	<u>\$ 79,331</u>	<u>\$ 99,035</u>	<u>\$ 19,704</u>
EXPENDITURES				
Protection to Persons and Property	\$ 465,590	\$ 479,851	\$ 479,837	\$ 14
Administration	14,750	16,389	15,893	496
Total Expenditures	<u>\$ 480,340</u>	<u>\$ 496,240</u>	<u>\$ 495,730</u>	<u>\$ 510</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)				
	<u>\$ (401,009)</u>	<u>\$ (416,909)</u>	<u>\$ (396,695)</u>	<u>\$ 20,214</u>
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	<u>\$ 401,009</u>	<u>\$ 401,009</u>	<u>\$ 400,000</u>	<u>\$ (1,009)</u>
Total Other Financing Sources (Uses)	<u>\$ 401,009</u>	<u>\$ 401,009</u>	<u>\$ 400,000</u>	<u>\$ (1,009)</u>
Net Changes in Fund Balance	\$ 0	\$ (15,900)	\$ 3,305	\$ 19,205
Fund Balance - Beginning			2,657	2,657
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (15,900)</u>	<u>\$ 5,962</u>	<u>\$ 21,862</u>

HENRY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**HENRY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2005

HENRY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2005

	LGEA Fund	Federal Grant Fund	Solid Waste Grant Fund	Emergency 911-EMS Fund	
ASSETS					.
Cash and Cash Equivalents	\$ 92,781	\$ 16,878	\$ 25,624	\$ 139,512	,
FUND BALANCES					
Unreserved:					
Special Revenue Funds	\$ 92,781	\$ 16,878	\$ 25,624	\$ 139,512	,

HENRY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2005
(Continued)

Fair Fund	Total Non-Major Governmental Funds
<u>\$ 104,499</u>	<u>\$ 379,294</u>

<u>\$ 104,499</u>	<u>\$ 379,294</u>
-------------------	-------------------

THIS PAGE LEFT BLANK INTENTIONALLY

HENRY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005

HENRY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

	LGEA Fund	Federal Grant Fund	Solid Waste Grant Fund	Emergency 911-EMS Fund
REVENUES				
Taxes	\$	\$ 1,300	\$	\$ 89,766
Intergovernmental	37,868		24,067	16,710
Miscellaneous				
Interest	1,864	748	820	2,529
Total Revenues	<u>\$ 39,732</u>	<u>\$ 2,048</u>	<u>\$ 24,887</u>	<u>\$ 109,005</u>
EXPENDITURES				
General Government	\$	\$ 12,746	\$	\$
Protection to Persons and Property	24,898			119,229
General Health and Sanitation	4,307		27,633	
Social Services	17,740			
Recreation and Culture				
Debt Service		1,245		
Capital Projects		1,000		
Total Expenditures	<u>\$ 46,945</u>	<u>\$ 14,991</u>	<u>\$ 27,633</u>	<u>\$ 119,229</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(7,213)</u>	<u>(12,943)</u>	<u>(2,746)</u>	<u>(10,224)</u>
OTHER FINANCING SOURCES (USES)				
Transfers to Other Funds		(2,500)		
Transfers from Other Funds		10,032		
Total Other Financing Sources (Uses)		<u>7,532</u>		
Net Change in Fund Balances	(7,213)	(5,411)	(2,746)	(10,224)
Fund Balances - Beginning	99,994	22,289	28,370	149,736
Fund Balances - Ending	<u><u>\$ 92,781</u></u>	<u><u>\$ 16,878</u></u>	<u><u>\$ 25,624</u></u>	<u><u>\$ 139,512</u></u>

HENRY COUNTY**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES****IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS****Other Supplementary Information****For The Year Ended June 30, 2005****(Continued)**

Fair Fund	Total Non-Major Governmental Funds
\$	\$ 91,066
	78,645
63,363	63,363
1,940	7,901
<u>\$ 65,303</u>	<u>\$ 240,975</u>
\$	\$ 12,746
	144,127
	31,940
	17,740
25,176	25,176
	1,245
	1,000
<u>\$ 25,176</u>	<u>\$ 233,974</u>
<u>40,127</u>	<u>7,001</u>
	(2,500)
	10,032
	<u>7,532</u>
40,127	14,533
64,372	364,761
<u>\$ 104,499</u>	<u>\$ 379,294</u>

THIS PAGE LEFT BLANK INTENTIONALLY

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John L. Brent, Henry County Judge/Executive
Members of the Henry County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Henry County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated January 19, 2006. Henry County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Henry County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Henry County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
January 19, 2006

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

HENRY COUNTY FISCAL COURT

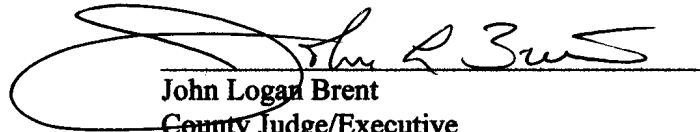
**For The Fiscal Year Ended
June 30, 2005**

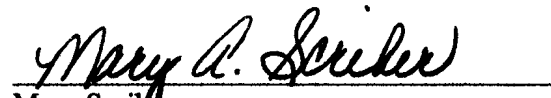
CERTIFICATION OF COMPLIANCE

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
HENRY COUNTY FISCAL COURT**

For The Fiscal Year Ended June 30, 2005

The Henry County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


John Logan Brent
County Judge/Executive


Mary Scriber
County Treasurer